AR65

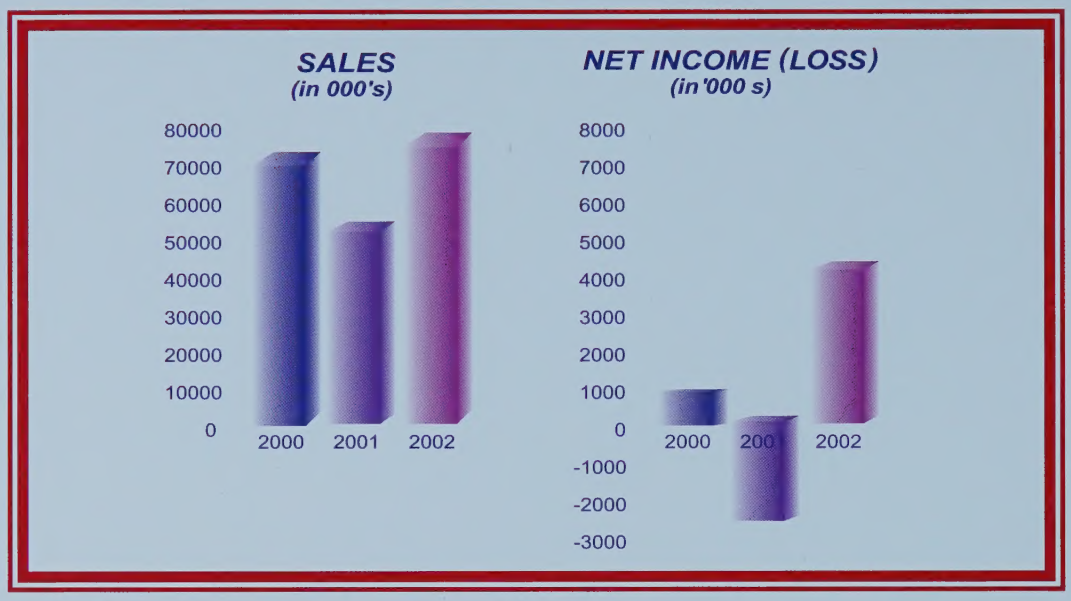
Winspear Business Reference Library
University of Alberta

REKO INTERNATIONAL GROUP INC.

ANNUAL REPORT 2002

Providing Engineered Products and Service "Tools" For Your Success...

FINANCIAL HIGHLIGHTS



(in 000's, except per share data)	**2000**	**2001**	**2002**
Sales	71,974	52,808	73,991
Net Income (Loss)	1,451	(2,500)	4,634
Earnings (Loss) Per Share (Basic)	0.18	(0.31)	0.59
Shareholders' Equity (per share)	6.93	6.81	7.51
Return on Equity per share	2.6%	(4.6%)	7.9%
Gross Margin	21.2%	12.9%	25.1%

REKO
INTERNATIONAL GROUP INC.

President's Message

Our Company experienced significant growth in market penetration, which offset the continued weakness in the tooling and engineered services markets. Fiscal year 2002 sales increased from $52.8 million in fiscal 2001 to $74.0 million on the strength of Reko's efforts in implementing the Reko Manufacturing Process (lean manufacturing) allowing the Company to be more competitive resulting in growing profits. Gross margin increased to $18.6 million or 25.1% of sales from $6.8 million or 12.9% of sales for last year. Net income for the year was $4.6 million or $0.59 per share compared to a loss of $(2.5) million or $(0.31) per share last year.

Throughout the year, our Company continued to increase sales as it focused on diversifying not only its customer base but also expanding its product lines. The Company is leveraging its strong design and engineering capabilities into higher value added mould and metal hydro forming die manufacturing. The hydro form process involves the manufacture of automotive and consumer parts using high water pressure in an enclosed mould-like die. We believe this manufacturing process will continue to increase market share and will continue to establish Reko as one of the few capable designers and manufacturers of hydro form dies and automated support equipment for this industry.

The Company has recently restructured its sales force from a product line approach to a customer-focused "FULL SERVICE" approach selling Reko mould, prototype and automation products as a "TOOL BOX" of capabilities. We believe this customer driven "TOOL BOX" one-stop strategy will continue to improve sales in the future by taking advantage of our individual product penetration and our diversified customer base.

Fiscal 2002 has been an exciting year in growing the Company. The large improvement in gross margin is a direct result of cost reductions and realignment of duties last year, together with the implementation of the "Reko Manufacturing Process." This process makes efficient utilization of the overall planning, scheduling and assembly functions for product completion. We have successfully launched lean manufacturing within our largest division, moulds, and believe that additional gains will be achieved through further implementation within the Company. These efforts will continue to bear fruit as the Company looks toward the continuous improvement process that lean manufacturing provides. While we are pleased with the results to date, we know that only through continuous improvement will Reko maintain and extend the gain made over the past year. Along with our lean manufacturing efforts the Company continues to focus on "lights out" machining (24 hours a day, unattended and automatically monitored) to not only reduce costs, but assists in achieving the relatively short lead times required by our customers.

Capital expenditures were deferred until the last quarter, with approximately 75% used to increase the capacity at our precision machining area together with the upgrading of the machines in the mould area by replacing less efficient machines with current state of the art machining centers.

In April 2002 Gordon Young, a director of the Company since 2000, joined as Reko's Chief Operating Officer. Gordon has held senior positions in strategic planning, business development finance, and supply management at large automotive parts manufacturers, and brings in-depth automotive and industrial business experience to our Company.

Reko has always supported a mentoring process for employee growth. As part of our effort to grow the company we are expanding our employee mentoring to a more formal process and to include all members of the executive management team.

During the final part of 2002 the Company drafted a strategic plan, which outlines the process of growing a more diversified Reko International Group over the upcoming three years -- utilizing the Reko "TOOL BOX" of services. This plan highlights using the financial strength of Reko along with utilizing the strong customer relationships in our core business to grow our market penetration in moulds, metal prototypes and dies, injection moulding and automation as well as specialty machining.

We look forward to the opportunity to continue improving our business and expanding in the coming year. I thank our employees for their dedication and efforts over the past year and wish to thank our shareholders, directors, and advisors for their continuing support.

Steve Reko

Management's Discussion & Analysis

Results of Operations

Reko continued to diversify its customer base as well as product line during the year. This, together with the "Reko Manufacturing Process", resulted in sales growth and net income improvement over the prior year.

Consolidated sales for the year were $74.0 million versus $52.8 million last year. This 40% increase results from the growth in our core mould business over the year, the addition to our customer base together with the product line diversification of hydro forming dies and moulds for foam products. The automation portion of product sales was higher for the year as additional contracts were awarded, as well as the sale of a large Reko CNC machine to an aerospace company in California.

Cost of sales before depreciation was 68.0% of sales compared to 76.2% for last year. This improvement was a result of the cost reduction in labour implemented last year together with the "Reko Manufacturing Process", which is a process of planning and scheduling the engineering, planning, machining and processing to efficiently control each operation from initial kick-off of jobs to final inspection, try-out and completion.

Depreciation for the year reduced to $5.2 million from $5.8 million last year. A large portion of the decrease resulted from less depreciation required for computer hardware and software that were purchased prior to 2000, and since these assets are depreciated over a five-year period, a large portion have been fully depreciated. This, together with lower capital acquisitions during the last few years, reduced this cost accordingly.

Selling and administration expenses increased from $9.5 million to $10.0 million for the year. This represents 13.5% as a percentage of sales for fiscal 2002 as compared to 17.9% for last year. During this year, the Company increased expenses for selling and administrative personnel, including bonuses, with reduction in machine promotion costs and professional services this year over last year. During the year, the Company began to insure a portion of its receivables through Export Development Canada due to the general weakness in the industry. In light of this economic weakness, the Company increased its general reserve for receivables collection consistent with conservative reporting.

Interest costs were reduced to $1.5 million from $2.6 million last year. During the year excess cash flows from the collection of receivables were utilized in reducing bank debt resulting in the reduced interest costs. Also, excess cash flows were used to reduce long-term debt to the extent of $10 million on an interim basis due to excess cash availability, which further reduced these costs. At July 31, 2002 $1.5 million of the long-term debt had not been re-borrowed.

Net income for the year was $4.6 million or $0.59 per share versus a loss of $(2.5) million or $(0.31) per share last year.

Foreign Currency

Sales revenue continued to be denominated in United States currency. In 2002, these sales represented 90.0% of sales, the same percentage as last year's sales. The Company hedges its downside risk by maintaining forward contracts to sell U.S. currency and by borrowing a portion of its debt in U.S. dollars. At July 31, 2002 the Company has forward contracts to sell $17.2 million U.S. dollars at an average rate of $1.5769. Net U.S. debt at July 31, 2002 was $2.6 million due to the Industrial Development Bonds at Proto-Techniques, Inc., which is included in loan payable, as well as bank indebtedness of $0.4 million.

Financial Position and Liquidity
(in 000's)

	2002	2001	Increase (Decrease)
Current Assets			
Accounts receivable	$21,779	$17,231	$ 4,548
Income taxes receivable	--	369	(369)
Work-in-progress	21,289	11,378	9,911
Prepaid expenses and deposits	767	555	212
	$43,835	$29,533	$14,302
Current Liabilities			
Bank indebtedness	$ 551	$ 127	$ 424
Accounts payable and accrued liabilities	6,363	4,170	2,193
Income taxes payable	691	--	691
Future income taxes	2,449	265	2,184
Current portion of long-term debt	2,879	2,600	279
	$12,933	$ 7,162	$ 5,771
Net Working Capital	$30,902	$22,371	$ 8,531
Current Ratio	3.39	4.12	

Accounts receivable increased for the year due to the sales increase during the year, with the day's sales outstanding decreasing to 103 days from 116 days last year.

Work-in-progress increased as orders continued to increase throughout the year.

Bank indebtedness remained relatively stable, as cash flow was sufficient to cover operating costs and debt coverage.

Future income taxes increased as taxes on profits in work-in-progress increased.

Current portion of long-term debt increased due to the capital lease obligations for equipment leased during the year.

Capital expenditures during the year were $4.2 million versus $1.8 million last year. The major portion of the expenditure was for adding capacity to our precision machining area and in adding capacity to our mould group and replacing old technology machines. Expenditures were allocated as follows:

Moulds and parts	$1,667
Dies and metal parts	171
Custom machining	2,374
Machine building/automation	5
	$4,217

Long Term Debt

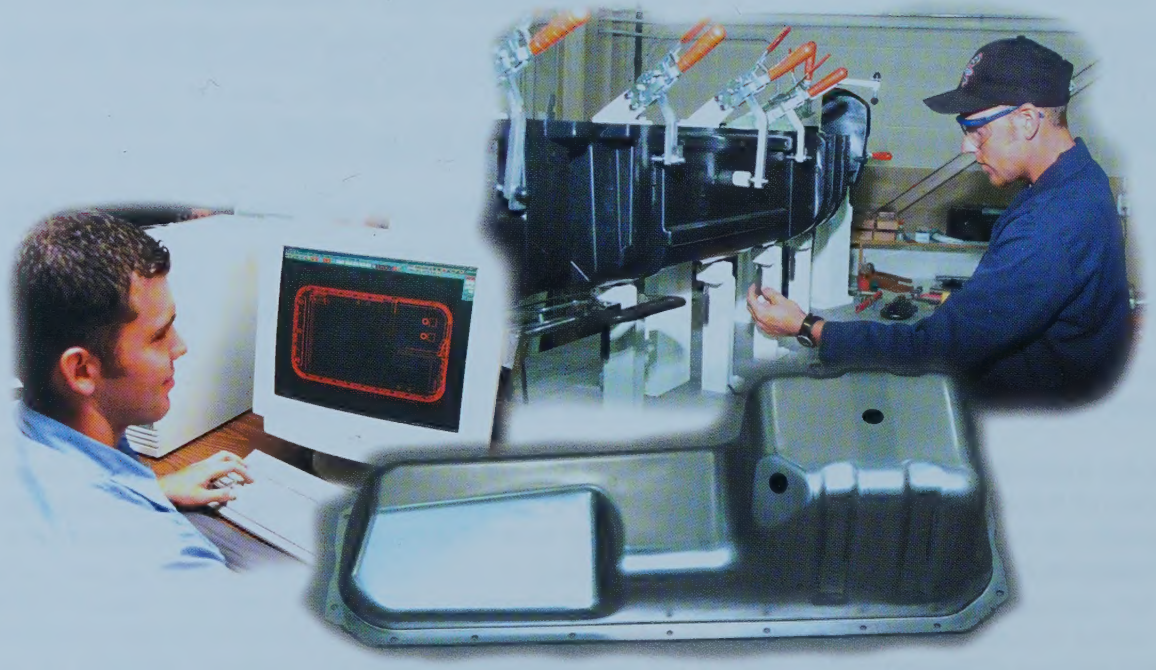
During the year, the Company utilized excess funds from the collection of accounts and reduction in the investment in work-in-progress and temporarily paid down long-term debt.

At July 31, 2002 the reduced debt amount of $1.5 million is a revolving debt and can be re-borrowed when required. The standby fee for this portion is 1% per annum on the unused portion. At July 31, 2002, the unused portion of the Industrial Revenue Bonds available for new capital expenditures at our U.S. facility was $2.3 million (U.S. $). This amount must be utilized by December 2002 or must be used to repay a portion of the bonds outstanding.

During the year, the Company entered into a capital lease arrangement for $3.1 million for a term of 5 years and amortization of 10 years at a rate of 6.35%.

Share Capital

During fiscal 2002, the Company purchased and cancelled 137,300 shares at an average cost of $2.27 subject to its normal course issuer bid. On July 4, 2002 the Company was approved to purchase, for cancellation, an additional 391,120 shares up to July 7, 2003, at the market price at the time of acquisition, and all purchases will be cancelled. In the opinion of the Board of Directors, such purchases constitute a good use of corporate funds.



MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of Reko International Group Inc., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with Canadian generally accepted accounting principles. Management has included in the Company's consolidated financial statements amounts based on estimates and judgements that it believes are reasonable under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurances the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel, and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the shareholders' auditors, Deloitte & Touche LLP, and their report is presented herein.

AUDITORS' REPORT

To the Shareholders of Reko International Group Inc.

We have audited the consolidated balance sheets of Reko International Group Inc. as at July 31, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Windsor, Ontario
September 3, 2002

REKO INTERNATIONAL GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS

Years ended July 31,
(in $000's, except for income (loss) per common share)

	2002	2001
Sales	$ 73,991	$ 52,808
Costs and expenses		
Cost of sales	50,223	40,240
Selling and administrative	9,977	9,454
Depreciation and amortization	5,194	5,775
	65,394	55,469
Income (loss) from operations before the following	8,597	(2,661)
Interest		
Long-term debt	1,335	1,742
Other - net	165	836
	1,500	2,578
Income (loss) before income taxes and non-controlling interest	7,097	(5,239)
Income taxes (Note 11)		
Current	341	1,908
Future (recovered)	2,207	(4,465)
	2,548	(2,557)
Income (loss) before non-controlling interest	4,549	(2,682)
Non-controlling interest	85	182
Net income (loss) for the year	4,634	(2,500)
Retained earnings, beginning of year	30,235	32,735
Retained earnings, end of year	$ 34,869	$ 30,235
Income (loss) per common share (Note12)		
Basic	$ 0.59	$ (.31)
Fully diluted	$ 0.59	$ (.31)

REKO INTERNATIONAL GROUP INC.
CONSOLIDATED BALANCE SHEETS

As at July 31,
(in $000's)

	2002	2001
ASSETS		
Current		
Accounts receivable -trade	**$ 20,968**	$ 16,804
-sundry	**811**	427
Income taxes receivable	**--**	369
Work-in-progress (Note 3)	**21,289**	11,378
Prepaid expenses and deposits	**767**	555
	43,835	29,533
Capital assets (Note 4)	**56,910**	57,631
Industrial Revenue Bond Proceeds - restricted for capital expenditures	**3,718**	3,531
Goodwill	**1,595**	1,726
	$ 106,058	$ 92,421
LIABILITIES		
Current		
Bank indebtedness (Note 5)	**$ 551**	$ 127
Accounts payable and accrued liabilities	**6,363**	4,170
Income taxes payable	**691**	--
Future income taxes	**2,449**	265
Current portion of long-term debt (Note 6)	**2,879**	2,600
	12,933	7,162
Long-term debt (Note 6)	**26,280**	23,096
Future income taxes	**6,215**	6,180
Non-controlling interest	**1,891**	1,808
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**22,883**	23,282
Contributed surplus (Note 9)	**325**	235
Retained earnings	**34,869**	30,235
Cumulative translation adjustment	**662**	423
	58,739	54,175
	$ 106,058	$ 92,421

On behalf of the Board:

Director

Director

REKO INTERNATIONAL GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31,
(in $000's)

	2002	2001
OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 4,634**	$ (2,500)
Adjustments for:		
Depreciation and amortization	**5,194**	5,775
Future income taxes	**2,207**	(4,465)
Non-controlling interest	**26**	(182)
	12,061	(1,372)
Net change in non-cash working capital (Note 10)	**(11,275)**	27,937
CASH PROVIDED - OPERATING ACTIVITIES	**786**	26,565
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds/(payments) on bank indebtedness	**424**	(17,821)
Net proceeds/(payments) on long-term debt	**217**	(8,183)
Cost of repurchase of shares	**(309)**	(653)
CASH PROVIDED (USED) - FINANCING ACTIVITIES	**332**	(26,657)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in capital assets	**(1,085)**	(1,645)
Proceeds on sale of capital assets	**134**	--
Unused proceeds from bond issue – restricted for capital expenditures	**(70)**	1,684
CASH (USED) PROVIDED - INVESTING ACTIVITIES	**(1,021)**	39
Effect of foreign exchange rate changes on cash and cash equivalents	**(97)**	53
Net change in cash and cash equivalents during the year	**--**	--
Cash and cash equivalents, beginning of year	**--**	--
Cash and cash equivalents, end of year	**$ --**	$ --

Refer to Note 10 for supplemental cash flow information.

REKO INTERNATIONAL GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2002 and 2001
(in $000's)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Reko Tool & Mould (1987) Inc., Reko International Sales, Inc., Reko International Holdings, Inc., Reko Automation & Machine Tool Inc., Concorde Machine Tool Inc., Custom Plastic Solutions Inc. (formerly 1473421 Ontario Ltd.), and its 80% interest in Proto-Techniques, Inc. All material inter-company accounts and transactions have been eliminated on consolidation.

(b) Use of significant accounting estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(c) Revenue recognition and work-in-progress
The Company deals primarily in contracts with a period of completion over several months. Revenue is recognized based on the percentage of completion method, provided the contract has progressed to the point where total costs can be reasonably estimated. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately. Work-in-progress includes unbilled contract revenue and inventory. Costs incurred on contracts with no revenue accrued are shown as inventory. The results reported under the percentage of completion method are based on management's estimates. Actual results could differ from these estimates. The sales of machines and parts production are recognized when the machines and parts are shipped.

(d) Cash and cash equivalents
Cash and cash equivalents include cash on hand and balances with banks.

(e) Capital assets and depreciation
Capital assets are stated at cost. Depreciation of capital assets is calculated on the straight-line basis over the estimated economic lives of the assets at the following rates:

Buildings	4%
Machinery and equipment	5 - 20%
Equipment under capital lease	20%

(f) Goodwill
Goodwill is stated at cost less accumulated amortization and is being amortized on a straight-line basis over twenty years. The Company evaluates the possible impairment of goodwill annually based on the undiscounted projected cash flows of the related business units.

(g) Stock based compensation
The Company has a stock option plan for selected employees. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Years ended July 31, 2002 and 2001
(in $000's)

SIGNIFICANT ACCOUNTING POLICIES, continued

(h) Foreign currency translation

The Company translates assets and liabilities denominated in foreign currencies at the exchange rate as at the balance sheet date with the exception of work-in-progress and accounts receivable, which is translated at the average forward exchange rate to the extent of the outstanding amount of forward exchange contracts. Revenues and expenses are translated at rates prevailing on the date of the transaction. Gains or losses arising on translation are included in the statement of income.

The financial statements of Proto-Techniques, Inc., which is a self-sustaining subsidiary, are translated using the current rate method whereby all assets and liabilities are translated at the year-end exchange rate and revenues and expenses at the average exchange rate for the year .Adjustments arising from the translation of the balance sheet are included as a separate component of shareholders' equity.

The Company hedges its exposure to foreign currency fluctuations by purchasing forward exchange contracts (see Note 8).

(i) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

(j) Research and development tax credits

Research and development tax credits are recorded when there is reasonable assurance of receiving them.

2. CHANGE IN ACCOUNTING POLICY

Effective August 1, 2001, the Corporation adopted, on a retroactive basis, the recommendation issued by The Canadian Institute of Chartered Accountants ("CICA") relating to the calculation of earnings per share (the "new CICA standard"). Under the new CICA standard, diluted per share amounts are calculated using the treasury stock method, replacing the imputed interest earnings approach. Basic and diluted per share amounts were not impacted by the change.

3. WORK-IN-PROGRESS

Details of the amounts included in work-in-progress are as follows:

	2002	2001
Unbilled contract revenue	$ 13,743	$ 289
Inventory	7 546	11,089
	$ 21,289	$ 11,378

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2002
Land	$ 1,735	$ --	$ 1,735
Buildings	18,739	4,542	14,197
Machinery and equipment	68,494	30,618	37,876
Equipment under capital lease	3,100	17	3,083
Equipment under construction	19	--	19
	$ 92,087	$ 35,177	$ 56,910

REKO INTERNATIONAL GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued

Years ended July 31, 2002 and 2001
(in $000's)

CAPITAL ASSETS, continued

	Cost	Accumulated Amortization	Net Book Value 2001
Land	$ 1,673	$ --	$ 1,673
Buildings	18,489	3,734	14,755
Machinery and equipment	67,548	26,514	41,034
Equipment under construction	169	--	169
	$ 87,879	$ 30,248	$ 57,631

5. BANK INDEBTEDNESS

The bank indebtedness is payable on demand together with interest at bank prime. It is secured by a general assignment of book debts and work-in-progress together with a $85,000 collateral mortgage on all land and buildings. At July 31, 2002 the Company had operating lines of credit totalling $23,900 (2001; $23,600).

6. LONG-TERM DEBT

	2002	2001
Mortgage payable - 6.33% repayable $50 monthly plus interest, due in full February 2006, secured by a $85,000 collateral mortgage on land and buildings	$ 5,350	$ 5,000
Bank - 8.27%, repayable $100 monthly plus interest, due in full January 2005, secured by a $85,000 collateral mortgage on land and buildings	5,300	6,500
Mortgage payable - 6.145% repayable $67 monthly plus interest, due in full July 2007, secured by a $85,000 collateral mortgage on land and buildings	5,600	6,333
Bank - banker acceptance rate plus 1%, repayable $38 monthly plus interest, due in full July 2005, secured by a $85,000 collateral mortgage on land and buildings	2,000	--
Loan payable - bank prime, repayable $200 in August 2001 and August 2002 plus interest and paid annually, repaid during the year	--	200
Industrial Revenue Bonds - principal repayments commencing December 2003, interest paid monthly, due in full December 2014	7,915	7,663
Obligations under capital leases payable $38 monthly plus interest, bearing interest at 6.35%, expiring in April 2007	2,994	--
	29,159	25,696
Deduct - principal portion included in current liabilities	2,879	2,600
Long-term portion	$ 26,280	$ 23,096

REKO INTERNATIONAL GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued

Years ended July 31, 2002 and 2001
(in $000's)

LONG-TERM DEBT, continued

In connection with the expansion of the manufacturing capacity at Proto-Techniques, Inc., $5.0 million U.S. funds of Industrial Revenue Bonds were issued by the Michigan Strategic Fund on December 1, 1999. Interest rates for these bonds are established weekly. The rate at July 31, 2002 was 1.60%. The obligation is backed by a Letter of Credit issued by Comerica Bank for the total amount of the bonds.
In addition to the above security, the Company has provided guarantees on the loans payable and available lines of credit of the subsidiaries.

During the year, the Company negotiated several long-term loan facilities to revolving debt, which could be paid down and borrowed back as required. The stand-by fee for the unused portion of debt is 1% per annum. At year end the Company had an unused portion of approximately $1,500.
Management assumes that the Company will re-negotiate any loans due within the next five years under similar terms to those currently in effect.
Obligations under capital leases are secured by the specific leased assets.
Long-term debt is repayable as follows:

Year	Bank Credit Facilities	Capital Leases	Total
2003	$ 2,604	$ 275	$ 2,879
2004	3,008	294	3,302
2005	3,039	314	3,353
2006	3,079	334	3,413
2007	2,418	1,777	4,195
thereafter	12,017	--	12,017
	$ 26,165	$ 2,994	$29,159

7. COMMITMENTS

The Company has entered into an operating lease for equipment with a total value of $660 U.S. funds expiring in March, 2008. Future minimum payments under the term of the lease are as follows (in U.S. funds):

2003	$102
2004	$102
2005	$102
2006	$102
2007	$102

8. FINANCIAL INSTRUMENTS

Financial Risk
Financial risk is the risk to the Company's earnings that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Company uses derivative instruments to reduce the exposure to foreign currency and interest rate changes.

Credit Risk
Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is also exposed to credit risk from customers equal to accounts receivable and unbilled contract revenue.

REKO INTERNATIONAL GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued

Years ended July 31, 2002 and 2001
(in $000's)

FINANCIAL INSTRUMENTS, continued

Fair Value

The estimated fair value of all financial instruments approximate their carrying amounts on the balance sheet.

Foreign Currency Contracts

As a significant portion of the Company's revenue is invoiced in United States dollars, the Company has entered into forward exchange contracts to hedge the exposure to exchange risks in the realization of its accounts receivable and unbilled contract revenue. At July 31, 2002 the Company had outstanding commitments to sell an aggregate of $17,200 U.S. funds during the period August 15, 2002 to September 15, 2003 at rates of exchange, which average 1.5769.

Interest Rate Swaps

The Company has entered into swap agreements to fix the interest rate on a portion of its floating rate debt. At July 31, 2002, the Company had $5,600 of floating rate debt swapped against debt with a fixed interest rate of 6.145% including applicable stamping fees, under an agreement expiring in July 2007. The current estimated fair value of the interest rate swaps in the prevailing market conditions is not significant.

9. SHARE CAPITAL

In June 2002 and July 2001, the Company announced its intention to make normal course issuer bids to re-purchase, at market prices for cancellation, up to 391,120 (July 2001; 398,495) common shares, representing approximately 5% of the outstanding common shares as at July 31, in the respective fiscal years. The current bid began July 8, 2002 and will end on, or before, July 7, 2003. During the year, the Company repurchased 137,300 shares under the first issuer bid and none under the second issuer bid.

	Authorized	Issued Shares	Amount
Class A preference shares	Unlimited	Nil	$ -
Class B preference shares	Unlimited	Nil	$ -
Common shares	Unlimited	7,822,401	$ 22,883

The following details are provided in respect to common share transactions during the years:	Shares	Amount
Balance July 31, 2000	8,262,601	$ 24,171
Re-purchase in respect to normal course issuer bids	(303, 700)	(889)
Balance July 31, 2001	7,958,901	23,282
Issued in respect to stock option plan	800	2
Re-purchase in respect to normal course issuer bid	(137,300)	(401)
Balance July 31, 2002	7,822,401	$ 22,883

The share repurchases were recorded at the stated capital value of $2.92 per share with the difference between the amount recorded and the amount paid credited to contributed surplus.

Years ended July 31, 2002 and 2001
(in $000's)

SHARE CAPITAL, continued

In connection with the public offering in 1994, the Company adopted a stock option plan under which employees, officers and directors of the Company may acquire common shares. At year-end the following common share options were outstanding:

	2002	2001
Balance, beginning of year	434,009	458,400
Granted during the year	87,000	106,135
Exercised during the year	(800)	--
Cancelled during the year	(10,000)	(130,526)
Balance, end of year	510,209	434,009

The exercise price per share of outstanding options varies from $1.90 to $6.60 (2001; $1.90 to $6.60) and can be exercised at various dates up to 2007. The number of options exercisable after July 31, 2002 was 371,844 (2001; 247,922).

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital
(excluding the current portion of future income taxes)

	2002	2001
Accounts receivable	$ (4,472)	$ 4,740
Work-in-progress	(9,840)	24,024
Income taxes	1,063	699
Prepaid expenses and deposits	(201)	(154)
Accounts payable and accrued liabilities	2,175	(1,372)
	$ (11,275)	$ 27,937

Interest paid
Interest paid during the year was $1,435 (2001; $2,540).

Income taxes
Income taxes paid during the year were $660 (2001; $959).

Non-cash transaction
During the year, the Company entered into capital lease obligations to finance equipment valued at $3,100.

11. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the combined Federal and Provincial rate for the following reasons:

	2002	2001
Combined Federal and Provincial rate	39.7%	42.7%
Reduction in enacted tax rates on future tax liabilities	--	22.6%
Manufacturing and processing deduction	-8.8%	-9.0%
Consolidation adjustments and other differences	5.0%	-7.5%
Effective rate	35.9%	48.8%

REKO INTERNATIONAL GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, Continued

Years ended July 31, 2002 and 2001
(in $000's)

12. INCOME (LOSS) PER COMMON SHARE

Basic income per common share was calculated on the basis of the weighted average number of common shares outstanding for the year, which amounted to 7,880,118 (2001; 8,138,351) shares. In calculating the income per share on a fully diluted basis, the balance of shares outstanding was increased by the outstanding share options using the treasury stock method.

13. RELATED PARTY TRANSACTIONS

The Company has an agreement with an associated company to provide management services to the Company. Amounts incurred in respect to this agreement totalled $350 for the year ended July 31, 2002 (2001; $352).

14. SEGMENTED INFORMATION

The Company is a manufacturer of moulds, dies, fixtures, machines and automation lines and provides custom machining services within the industry segment of metal cutting.

Information about the Company's geographic operations is given below:

	2002	2001
Sales		
Canada	$ 7,656	$ 5,443
United States	66,335	47,365
	$ 73,991	$ 52,808
Capital Assets and Goodwill		
Canada	$ 49,613	$ 50,304
United States	8,892	9,053
	$ 58,505	$ 59,357

During 2002, no customer had purchases representing greater than 10% of total sales (2001; three customers represented 33%).

At July 31, 2002, the Company had three customers representing 38.8% of the accounts receivable balance (2001; three customers represented 11.3%).

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the current year's presentation.

REKO INTERNATIONAL GROUP INC.
SUMMARY OF INCOME (LOSS)
(in $000's, except for income (loss) per common share)

	2002	2001	2000	1999	1998	1997	1996	1995
Sales	$73,991	$52,808	$71,974	$78,909	$67,927	$55,459	$37,501	$44,599
Cost and expenses								
Cost of sales	50,223	40,240	51,398	49,103	45,132	35,920	26,315	31,609
Selling and administrative	9,977	9,454	9,478	9,473	8,452	5,979	5,587	3,734
Depreciation & amortization	5,194	5,775	5,287	4,282	3,721	3,333	2,743	2,345
	65,394	55,469	66,163	62,858	57,305	45,232	34,645	37,688
Income (loss) from operations before the following	8,597	(2,661)	5,811	16,051	10,622	10,227	2,856	6,911
Interest								
Long-term debt	1,335	1,742	1,609	1,293	1,303	1,522	1,606	715
Other-net	165	836	1,596	825	519	370	525	293
	1,500	2,578	3,205	2,118	1,822	1,892	2,131	1,008
Income (loss) before income taxes and other equity adjustments	7,097	(5,239)	2,606	13,933	8,800	8,335	725	5,903
Income taxes								
Current	341	1,908	329	3,212	2,802	1,140	(810)	402
Future	2,207	(4,465)	741	2,037	592	2,052	1,113	1,708
	2,548	(2,557)	1,070	5,249	3,394	3,192	303	2,110
Income (loss) before other equity adjustments	4,549	(2,682)	1,536	8,684	5,406	5,143	422	3,793
Other equity adjustments	85	182	(85)	(960)	(159)	(127)	(13)	(3)
Net income (loss) for the year	4,634	(2,500)	$1,451	$7,724	$5,247	$5,016	$409	$3,790
Basic income (loss) per common share$	0.59	$(0.31)	$0.18	$0.94	$0.64	$0.61	$0.05	$0.47

STATISTICAL DATA

COSTS AND EXPENSES AS A PERCENT OF SALES

Costs and expenses								
Cost of sales	67.9%	76.2%	71.4%	62.2%	66.4%	64.8%	70.2%	70.9%
Selling and administration	13.5%	17.9%	13.2%	12.0%	12.4%	10.8%	14.8%	8.4%
Depreciation and amortization	7.0%	10.9%	7.3%	5.4%	5.5%	6.0%	7.3%	5.2%
	88.4%	105.0%	91.9%	79.6%	84.3%	81.6%	92.3%	84.5%
Gross margin contribution before selling and administration expenses	25.91%	12.9%	21.2%	32.3%	28.1%	29.2%	22.5%	23.9%
Return on sales	6.3%	(4.7%)	2.0%	9.8%	7.7%	9.1%	1.1%	8.5%
Effective tax rate	35.9%	48.8%	41.0%	37.7%	38.6%	38.3%	41.8%	35.8%

REKO
INTERNATIONAL GROUP INC.

INFORMATION FOR SHAREHOLDERS

DIRECTORS AND OFFICERS

Steve Reko
President and Chief Executive Officer and a Director and Officer

Michael F. Dunn
Vice-President Finance and Officer

Diane St. John
Secretary Treasurer and a Director and Officer

Gordon Young
Chief Operating Officer, a Director and Officer, and a member of the Compensation Committee

Jeffrey M. Slopen
Director and a member of the Audit Committee
(Partner - Wilson, Walker, LLP
Windsor, Ontario)

John R. Halula Sr.
Director and a member of the Audit Committee
(Corporate Director, Past Group Vice-President, Worthington Custom Plastics)

Stephen E. Myers
Director and a member of the Compensation Committee
(President and Chief Executive Officer, Myers Industries Inc., Akron, Ohio)

Dr. Andrew Szonyi
Director and Chair of the Audit Committee
(President, Andrew J. Szonyi & Associates, Toronto, Ontario)

John Sartz
Director and Chair of the Compensation Committee
(President, Viking Capital Corp.
Toronto, Ontario)

Steve J. Jaksich
Controller and Officer

CORPORATE DIRECTORY

Corporate Office
5390 Brendan Lane
Oldcastle, Ontario N0R 1L0
Tel: (519) 737-6974
Fax: (519) 737-6975
www.rekointl.com

Auditors
Deloitte & Touche LLP
Windsor, Ontario

Bankers
Bank of Montreal
Windsor, Ontario

Comerica Bank
Detroit, Michigan

Counsel
Wilson, Walker, LLP
Windsor, Ontario

Transfer Agent
CIBC Mellon Trust Company
P.O. Box 7010 Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Tel: (416) 643-5500
www.cibcmellon.ca

Investor Relations Contact:
Michael F. Dunn
Vice-President Finance
5390 Brendan Lane
Oldcastle, Ontario N0R 1L0
Tel: (519) 737-6974
Fax: (519) 737-6975

ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Holiday Inn Select, 1855 Huron Church Rd. Windsor, Ontario on December 10, 2002 at 1:00 p.m.

Listing - The Common Shares of the Company are listed on the Toronto Stock Exchange (symbol REK)

Providing Engineered Products and Service "Tools" For Your Success.

REKO INTERNATIONAL GROUP INC.

5390 Brendan Lane
Oldcastle, Ontario, Canada
N0R 1L0
Phone 519.737.6974 | Fax 519.737.6975
www.rekointl.com